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SIPDIS

FOR EUR/NB, EUR/ERA AND EEB/ESC
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TAGS: [PREL](#) [PGOV](#) [ENRG](#) [KGHG](#) [RU](#) [LH](#) [LG](#) [EN](#)
SUBJECT: Estonia Hopeful but Expects Little from Baltic
Energy Meeting

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(B) Riga 224
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Classified by: CDA Karen B. Decker for reasons 1.4(b/d).

11. (C) SUMMARY: The Government of Estonia (GOE) and Eesti Energia are hopeful the discussions at the April 27 Baltic Prime Ministers' Council will be positive, but they don't expect concrete results this weekend. Eesti Energia feels the new Lithuanian government does not grasp the complexity of the joint Visaginas nuclear power plant (NPP) project. The MFA says the three prime ministers will issue a joint declaration after the Council meeting that will have a "nice statement on Visaginas that says nothing." The declaration will, however, call for accelerated action on Swedlink, Estlink 2, a Polish-Lithuanian interconnector, and regulation of third-party electricity imported into the EU. Estonian energy policymakers agree that Russia's role in the region is unhelpful, and speculate "it will take a crisis" to jolt the Baltics into serious cooperation on energy diversification. Estonia wants to cooperate closely with the United States on nuclear technology, including a possible USTDA Orientation Visit. END SUMMARY.

Vilnius Summit: Hopeful, but Not Expecting Much

12. (C) On April 24, Econoff delivered Ref A points to Estonian MFA Director for Energy Mati Murd, who highlighted three agenda items for the upcoming Baltic Prime Ministers energy meeting in Vilnius. The PMs will discuss opening the Baltic electricity market - which will require Estonia to increase access to its market by 35 percent. They will also try to reach agreement on whether the proposed Swedlink cable should be an 'infrastructure' project (owned by the state transmission companies) or a 'commercial' project (owned by the private power generation companies). Finally, they will call for a common policy to regulate electricity imports from outside the EU (i.e. Russia). Explaining the first point, Murd said the GOE's reluctance to lift electricity price controls is based on fear that an increase in energy prices in the short term could push Estonia's inflation over Maastricht limits and derail its bid for Euro accession by 2011. Nevertheless, Murd said, Estonia will open its electricity market by 35 percent in early 2010 at the latest.

13. (C) Murd noted that the EU's High Level Group on Baltic Energy has been "very constructive and very helpful." Going into the April 26-27 summit, the GOE is "hopeful for progress on Visaginas, but not expecting agreement" on concrete details. He expressed skepticism

about the independence of other Baltic countries' energy policy. While there is a clear divide in Estonia - with the GOE focused on long-term security and Eesti Energia on profitability - in Latvia, he said, "it seems sometimes that Latvenergo is setting the government's energy policy."

14. (C) Murd provided Econoff with an advance copy of the working draft of the PM's Joint Declaration - to be released after the Prime Ministers' meeting (emailed to EUR/NB and Embassies Riga and Vilnius). The final declaration will call for:

- an open, transparent integrated Baltic-Nordic electricity market no later than 2013;
- implementation of a Baltic-Swedish interconnection project - without delay;
- acceleration of the Estlink 2 project;
- an environmental impact assessment, plus financing plan, for a 1000MW Polish-Lithuanian electricity interconnection by March 31, 2010, with the link operable by 2015;
- an increase in the share of renewable energy;
- continued cooperation on the Visaginas Nuclear Power Plant (NPP) and
- preparation of a joint policy on electricity imports from third countries.

15. (C) Murd commented that the point on Visaginas "...is very nice, but says nothing." The final item on regulation of third-country electricity imports, he noted, still needs EU-level agreement and faces problems

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with WTO compliance as well. On the all-important practical questions surrounding Visaginas - including choice of a business model and identification of the rights and obligations of partner countries - Murd said he was doubtful the three countries will reach an agreement "...that will not be changed in a few months like the last one was." (Note: This refers to deviation from the February 2006 Trakai Declaration.)

Energy Security for the Baltics

16. (C) At an Embassy-hosted roundtable on energy security earlier in April, Eesti Energia's Head of Nuclear Power Programs, Andres Tropp, asserted "the new Lithuanian government has no understanding of how difficult building a new NPP will be." As a result, Estonia continues to pursue other options, including building its own NPP. The GOE is currently training several nuclear engineers in Sweden this summer, and hopes to send them to the U.S. in 2010. This spring, Estonia will do geological studies for possible domestic site locations. However, Tropp noted, Estonia still believes it has a 2-3 year window before it must commit to either Visaginas or a domestic NPP. In that time, the GOE will continue to lay the legislative and regulatory groundwork, and see how serious Lithuania really is about a joint project. Tropp also said he does not believe the GOLi's stated goal of completing a new NPP by 2018 is realistic.

Looking Back: "Letting Gazprom In Was a Mistake"

17. (C) At the same roundtable, the GOE also stressed that Russian involvement in regional gas and electricity markets seriously hampers diversification efforts. The Ministry of Economy's Deputy Director General for Energy, Einari Kisel lamented the significant share Gazprom got in Baltic gas markets during the privatization of the sector in the early 1990s. At that time, Russia effectively forced many central and eastern European to give Gazprom a stake in their markets or do without its gas. While Estonia has not suffered cutoffs in gas

supply, Kisel asserted that "letting Gazprom in was a mistake." Gazprom's stake in national utility companies, (it owns 37 percent of Eesti Gas) and as owner of the gas in Latvia's Inchulkans underground storage site, now complicates regional efforts to diversify away from Russian influence. Although Russia periodically talks about investing in new infrastructure projects such as gas pipeline interconnections or a nuclear plant in Kaliningrad, it never actually does anything to move these projects forward. Kisel felt that such discussions are simply intended to discourage any serious local efforts on such projects. Commenting generally on the lack of Baltic energy cooperation, Tropp of Eesti Energia said the Baltics will "need a crisis to spur action."

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